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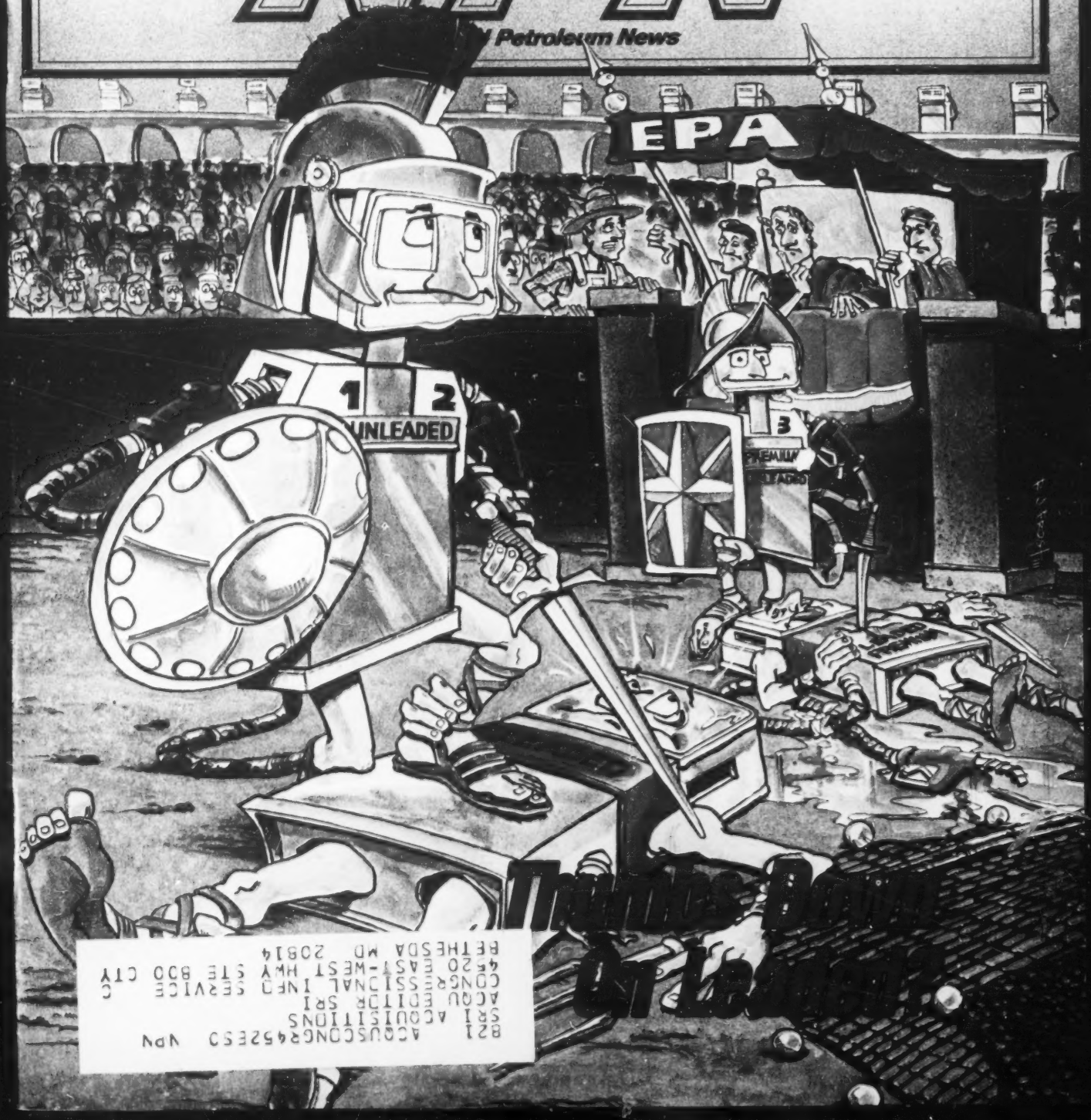
November 1986 $5.00

A New 'Y' Store Design for Extra Sales
No Letup in Phillips' Big Image Push
Why QuickTrip Sees Growth, Expansion a 'Must'

NPN

National Petroleum News



Troubles Pour In For Leaded Gas

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NATIONAL PETROLEUM NEWS

NOVEMBER 1986 VOL. 78 NO. 11

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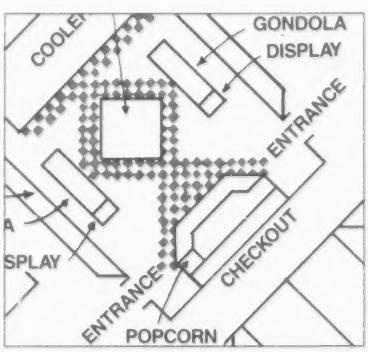
Is this the end of the line for leaded gasoline? The feds appear ready to give the "thumbs down" sign, but for many marketers, it remains the "fighting grade." What's in store? *Cover artwork by Ralph Frost III.* **Page 44**

When people in Tulsa, Okla., think of C-stores, they generally think of QuikTrip. This highly successful chain is now entrenched in four markets and looking to expand. What's next? **Page 50**



Jim Dandy Markets has an innovative new design at three of its prime C-store locations in Nashville that it's betting will come up a winner. Here's a look at what went into it and 'Y.' **Page 56**

• TRENDS

Once Bane of Oil Men, DOE's "Star Wars" Pet

There's no question that most of the '70s and the early '80s were nightmare days (and nights) for just about everybody involved in the production, refining, transportation and marketing of petroleum. Mere mention of the acronyms DOE or ERA is enough to start some marketers shaking and quaking all over again.

It might come as a surprise to many of them then that DOE is no longer interested in their operations and their hides, and no longer a federal juggernaut to be feared and dreaded. DOE is well on the road to becoming a war agency of sorts in Washington.

U.S. News & World Report, a lively weekly that comments on both the domestic and international scenes, put its finger right on the button in a late September article entitled, "The DOE: The Pentagon's Adopted Little Brother." Think about the implications of that one!

DOE was created originally by the Carter Administration to be the cabinet agency that would conduct far-ranging control and regulatory programs, and would direct research and progress in everything from coal, hydropower and nuclear fission to windmills on farmlands and mountaintops. Things even got so silly at one time that some windmill operators were actually selling "excess power" to the utilities, like it or not. DOE all but blew the minds of fuel oil marketers when it straight-facedly proposed unrestricted substitution of electricity for distillates in space-heating.

At its peak, DOE had a budget in excess of $15 billion a year and as many as 22,000 employees, with thousands of others in consultants' roles. It was the biggest federal bureaucracy that the nation has ever known. It was probably the greatest boon of all to the aspirin business, even eclipsing the traditional IRS agonies in mid-April (*NPN*—Sept. '79, p40).

Where marketers were concerned, 50,000 to 100,000 pages of regulations and controls stifled them at every turn. Often the regs were either so vague or so contradictory that no one in his right mind could abide by them and still stay in business. For the legal profession, the regulations were a treasure trove that literally guaranteed instant and long-term employment. Some of the cases are still banging around in the federal courts and various agencies, and it'll probably be the end of the decade, or even later, before all are phased out.

The fact that so many marketers somehow manage to survive everything DOE could dish out is probably the greatest testimonial yet to their innate toughness and resiliancy.

Be that as it may, when President Reagan came into office, civilian energy programs accounted for about 57% of the DOE budget. As the President decontrolled the industry and curtailed the majority of its high-flying operations, the budget money was projected into other areas of Administration concern.

In the elimination of some and the consolidation of other programs, DOE took over the Atomic Energy Commission. DOE's military budget rose from $3.6 billion in 1981 to $7.2 billion this year. These are peanuts in the overall Defense Department budget of $287 billion, yet they are intrinsically significant in their own right. This is the way *U.S. News & World Report* summed it up:

"The nation's three government-owned weapons laboratories, working under DOE supervision, are busily designing new nuclear warheads for futuristic cannons, depth charges and anti-aircraft and ballistic missiles. The agency detonates these nuclear weapons in huge underground cavities at its sprawling Nevada test site—a practice that Moscow and many lawmakers want stopped.

"By the same token, the DOE is the Pentagon's unheralded partner in the Strategic Defense Initiative (Star Wars) program. Research that it funds accounts for up to 15% of the budget on SDI this year. According to Assistant Energy Secretary Sylvester Foley, SDI is 'the No. 1 research-and-development project for the department.' "

Most Washington insiders are well aware of the transformation of DOE from a conservation-and-regulatory agency to its new role in the military. Said one: "All the old DOE has left now are the Energy Information Agency and the natural gas industry. When and if gas is decontrolled, the defense switch will probably become even more pronounced. This is a real backdoor coup for the Defense Department, no?" —*J. Richard Shaner*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

AUGUST	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .848	$ .778	$ .843	$ .999
Regions:				
Northeast	.853	.777	.828	.988
North Central	.836	.789	.837	.992
South	.827	.751	.820	.986
West	.881	.801	.883	1.042

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	10/3/86	10/4/85
Gasoline (total)	228,745	221,466
Gasoline (Unleaded)*	121,287	109,377
Jet Kerosine	42,780	35,276
Distillates	150,945	117,666
Residual	43,610	45,184

**Included in gasoline total.*
Source: American Petroleum Institute.

Study Shows Average Dealer Nearing $1 Million in Sales

They're fewer in number, and many of the survivors of the shakeouts of the 1970s and early 1980s still grouse about market conditions, supplier pressures, and so on. But, on the whole, the typical U.S. "conventional" service station dealer, circa 1986, has never had it so good, according to a recent Hunter Publishing Co. Micromarket study.

The average dealer, in fact, is within a small stone's throw of the $1 million plateau in annual sales, the new Micromarket survey shows.

Average gasoline volumes have also shown remarkable improvement, with monthly gallonages increasing by 82% since 1975.

Today's average station generates more than four times the dollar volume than the average station did a decade ago. In 1975, stations averaged $232,000 in annual dollar volume, including gasoline sales. In 1985 (the last full calendar year reported), the typical station had revenues of $973,000.

Annual dealer repair and service dollar volume has also kept pace with the upswing in his overall sales curve, the Micromarket study reports. Sales of parts and labor, the primary profit "stream" for many conventional dealers, jumped from an average of $50,800 in 1975 to $182,900 in 1985, almost a fourfold increase.

Interestingly, however, in 1975 service volume accounted for almost 22% of average station gross dollar volume. In 1985, backroom business amounted to 19% of total sales. This altered ratio of gasoline vs. service sales obviously reflects substantial increases in gasoline prices over the 10-year period.

Yet, since many dealers generate 40%-50% gross profit margins on "backroom" sales, the importance of the contribution of this category of sales to overall profitability is apparent.

Gasoline sales at conventional stations have traditionally been below average when compared to other types of outlets (pumpers, etc.). Since 1975 and through the early 1980s, average monthly throughputs hovered in the 35,000-45,000 gal./month range.

However, gallonages at conventional stations are beginning to improve rather dramatically, according to the Micromarket study. It reports that in 1985, the average station pumped 63,700 gal./month, an increase of 28,700 gal. or 82% over 1975.

Dealer Business Profile

	1985	1975
Average annual dollar volume, including gasoline sales	$973,000	$232,000
Average repair and service dollar volume	$182,900	$ 50,800
Average gallons of gasoline sold per month	63,700	35,000
Average number of full-time technicians	2.6	2.2
Average number of part-time technicians	1.4	1.6
Average number of full-time employees	4.4	3.0
Average number of part-time employees	2.9	*
Average number of service bays at station	2.9	*
Percentage of stations with car washes	14.9%	*
Average value of hand tools and equipment	$ 35,080	*
Average amount spent on hand tools and equipment in 1985	$ 8,270	*
ASE certifications		
All	8.3%	*
Some	25.7%	*
None	65.9%	*
Community in which station is located		
Rural	28.3%	20.3%
Suburb	31.1%	30.6%
City	40.6%	49.1%
Normal parts inventory		
$5000 to $10,000	59.4%	*
More than $10,000	40.6%	*
Where most parts are purchased		
Parts jobber	70.3%	*
Warehouse distributor	26.4%	*
Company TBA program	16.9%	*
Wagon jobber	8.7%	*
Used parts outlets	3.0%	*

Totals of more than 100% due to multiple mentions.
* No available data

The data generated by Hunter's Micromarket study provides a one-of-a-kind portrait of the conventional service station dealer. The information was compiled from a detailed nationwide survey of a demographically balanced sample of 1,014 station operators conducted in late spring of this year. The response rate from the questionnaires was 51.2%, high by normal market research standards.

The Micromarket dealer panel surveyed was the same research base that is used in Hunter's triennial Service Job Analysis studies of the service market.

Details from the "business profile" segment of the study are shown in the accompanying table.

Some significant changes in dealer "demographics" are revealed in the Micromarket survey. For example, there has been a noticeable shift from urban to rural locations among conventional stations, according to the study. In 1975, half of all stations were in cities. In 1985, only 40.6% of these types of outlets are still in cities, while 28.3% of the stations are now in rural areas, compared to only 20.3% in 1975.

Note, too, that dealers increasingly use sources other than their oil company TBA programs for their parts and accessories purchases, undoubtedly because of company pullouts from TBA or because of more limited product line offerings. Parts jobbers are scooping up the lion's share of dealers' parts business. NPN

Reagan Orders Domestic Energy Policy Review

It could be just old-fashioned election year politicking, or maybe the White House is genuinely listening to the cries for an oil import fee.

Whatever the reason, President Reagan has ordered a "high-level review" of U.S. energy policy as it relates to national security. The study, to be completed by the end of the year, will be headed up by Department of Energy Deputy Secretary William Martin. The study will focus on:

- Assessing the energy outlook now and into the 1990s;
- Reviewing current energy policies;
- Determining the appropriate federal role in assuring that energy security goals are met;
- Making policy recommendations to the President.

Reagan announced the study at a September fund-raiser for Louisiana Republican Henson Moore. The announcement raised eyebrows because Moore, a congressman running for the Senate, has been a staunch supporter of a tax on imported oil to prop up domestic producers. On several occasions, Reagan has ruled out an oil import fee.

A DOE spokesman said members of the study group "will take as (their) mission the President's commitment to a strong domestic energy industry and his determination that America never again be captive to a foreign oil cartel." NEW

Justice Dept. Confirms Miss. Antitrust Probe

A number of Mississippi oil marketers are being investigated for alleged price fixing.

A spokesman for the U.S. Department of Justice confirmed that an investigation is ongoing, but refused to provide details. He said evidence has been presented by Justice Department attorneys to a grand jury in Greenville, Miss. NEW

Upstream Employment Dips 11%; Marketing Loss 'Insignificant'

Emphasizing the severity of the retrenchments of recent years, employment in the petroleum industry declined 15.4% in 1985. The work force, at 1,713,154 men and women, was the lowest since 1980.

Exploration and production took the worst beating, cutting its manpower total by 11.7%—just a little bit under 200,000 in all.

Wholesale and retail marketing chopped off about 17,000 employees in 1985, but since this total has varied considerably in recent years, the cutbacks couldn't be considered significant.

The employment totals were compiled by Independent Petroleum Assn. of America and published recently in its 1986-87 edition of "The Oil and Gas Producing Industry in Your State."

The compilation showed that California had the most retail employees (62,798) and Texas the most wholesale employees (25,550) in 1985. Texas ranked second in the number of retail employees (35,956), while Illinois had the second largest number of wholesale employees (10,091). Texas also had the greatest number of oil employees—379,631, with two-thirds of them engaged in exploration and production.

Here are some of the marketing figures for the recent years compared with total employment in the petroleum industry:

Year	Marketing Wholesale	Retail	Industrywide Total*
1985	205,632	587,352	1,713,154
1984	223,974	586,433	1,976,488
1983	225,394	558,462	1,865,305
1982	226,053	561,172	1,835,303
1981	217,248	606,196	1,762,825
1980	231,616	584,227	1,642,843

*Includes exploration, production, refining and transportation.

Here are the state-by-state totals:

State	Wholesale	Retail	Industrywide Total
Alabama	4,844	7,622	17,942
Alaska	513	1,169	11,946
Arizona	1,512	8,356	11,911
Arkansas	2,825	4,710	14,636
California	16,780	62,798	160,178
Colorado	2,929	8,601	38,672
Connecticut	2,052	9,384	12,978
Delaware	309	1,475	3,029
Dist. of Columbia	185	1,054	2,071
Florida	7,140	30,156	40,883
Georgia	5,964	16,680	27,302
Hawaii	522	3,638	4,910
Idaho	1,425	2,809	4,775
Illinois	10,091	26,269	59,871
Indiana	3,231	16,161	26,861
Iowa	3,150	11,435	16,289
Kansas	2,618	7,691	34,191
Kentucky	3,063	9,989	23,200
Louisiana	5,800	8,100	112,600
Maine	1,318	2,627	3,945
Maryland	3,059	13,085	17,337
Massachusetts	3,018	14,462	22,912
Michigan	5,380	21,250	40,780
Minnesota	2,562	15,845	21,026
Mississippi	2,789	5,389	20,223
Missouri	6,240	15,672	27,666
Montana	1,430	2,734	8,661
Nebraska	1,971	6,485	12,813
Nevada	427	3,515	5,151
New Hampshire	438	2,788	3,504
New Jersey	3,713	19,237	33,655
New Mexico	1,912	4,063	24,330
New York	9,516	28,703	56,985
North Carolina	5,445	9,667	18,002
North Dakota	2,350	2,278	11,521
Ohio	5,881	29,159	60,690
Oklahoma	5,726	6,135	89,826
Oregon	2,374	7,884	11,998
Pennsylvania	9,600	25,400	61,000
Rhode Island	483	2,514	3,895
South Carolina	3,691	7,274	11,600
South Dakota	1,451	2,736	4,506
Tennessee	4,870	11,821	19,346
Texas	25,550	35,956	379,631
Utah	1,689	4,779	13,663
Vermont	309	1,790	2,183
Virginia	7,616	14,996	25,634
Washington	2,862	9,841	16,193
West Virginia	2,359	3,812	17,825
Wisconsin	3,263	14,441	20,831
Wyoming	1,387	2,957	21,487
Total US	205,632	587,352	1,713,154

Unocal is No. 1 in L.A. With 17.5% of Stations

Unocal has more stations in Los Angeles County than any other company, reports Whitney Leigh Corp., a marketing research firm based in Marina del Rey, Calif.

Following are the station counts of all major brands and of nonmajor brands as a group:

1. Unocal	580	(17.5%)
2. Chevron	455	(13.7%)
3. Arco	433	(13.1%)
4. Mobil	424	(12.8%)
5. Shell	422	(12.7%)
6. Texaco	390	(11.8%)
7. Exxon	123	(3.7%)
Total major	2,827	(85.3%)
Nonmajor	486	(14.7%)

Overcharge Audit Names To Be Released by DOE

A division of the Department of Energy has been ordered to release documents that list those marketers still under audit for alleged price overcharges in 1980.

The decision to release the names of the marketers was applauded by Washington, D.C., attorney Gregg Potvin, who filed a Freedom of Information Act (FOIA) request in August to force the release of the names. Potvin said the DOE decision means a number of marketers who have been cleared of the oil price overcharges are now free to destroy outdated records.

DOE regulations forced those marketers still under audit to maintain the records. Potvin filed the FOIA request after a DOE official in the agency's Economic Regulatory Administration refused to provide him with a list of the marketers still under investigation.

Marketers interested in finding out the status of their DOE audit may call attorney William Taylor at 202/797-8822. NEW

Average State 'Gas' Excise Doubled Over Past 25 Years

Back in 1960, when gasoline fetched about 36¢ to 37¢ gal. at most retail pumps, Hawaii held the dubious distinction of being No. 1 in the amount of taxes it collected from motorists. Today, Hawaii has been displaced and replaced by the state of Washington which, along with Oklahoma and Vermont, ranked 18th 25 years ago.

Washington currently levies 18¢ in state assessments which, together with the 9¢ gal. the federal government takes, means that motorists there are now paying 27¢ gal. in motor fuel taxes. With crude and product prices in the sorry state they were at mid-summer, it is increasingly obvious that suppliers and marketers are being backed into a hard corner in many of the high-tax states.

Minnesota, Wisconsin, Connecticut and Louisiana aren't far behind Washington. Minnesota, which ranked 42nd in 1960, is now No. 2 at 17¢ state and 9¢ federal for a total tax of 26¢ gal. The other three are in the 25¢ gal. range.

Not all states are in that high tax level, however. On the other end of the spectrum is the good state of Oklahoma, with a 6.6¢ state tax and a total tax of 15.6¢ gal. Missouri and Georgia are just above Oklahoma in the 16¢ gal. area while Wyoming, New Jersey, Florida, Alaska and New York are at 17.1¢ and under, for combined totals of 25¢ to 26¢ gal.

One thing that must be borne in mind is that excise, sales and local taxes also are authorized in a number of states, inflating the pump price of gasoline significantly.

The national averages for state gasoline taxes in 1985 and 1960, respectively, were 10.9¢ and 5.9¢ gal. Federal taxes were 9¢ in 1985 and 4¢ in 1960. Thus, these two national averages amounted to 19.9¢ in 1985 and 9.9¢ a quarter of a century ago.

Some of the increases, percentagewise at least, were fairly stiff through the years. Minnesota's state tax is up 240%, more than tripling from 5.0¢ gal. to 17¢ gal. Washington rose 177%, Wisconsin 175%, Connecticut 167%, Arizona 160%, Nevada 158% and Michigan 150%.

Percentages can be deceiving, however. Missouri, for example, recorded an increase of 133%. But Missouri's tax load rose only from 3¢ gal. to 7¢ gal. The smallest percentage increase was Oklahoma's 2%, as the state tax rose from 6.5¢ to 6.6¢ gal. Four states have held their 25-year tax hikes to 1¢ gal. Others included Alaska, Florida and Georgia. Two others, Maine and Mississippi, held tight at 2¢ while New York went to 2.1¢ and Rhode Island reached 2.7¢ gal. A dozen states limited their tax increases to the 3¢ to 4¢ gal. range. The federal tax was jumped from 4¢ gal. to 9¢ gal. on April 1, 1984.

Not all states have flat-rate tax structures, however. Some, especially during the years when gasoline prices were rising rapidly, used percentage formulas to increase their take. In recent years, as pump prices and consumption declined, so did the averaged tax collections of the states still using these formulas. NPN

State	1985 Rank	1985 Tax	1960 Rank	1960 Tax	% Chng. '85 v. '60	Total Taxes +9¢ Fed. '85	Total Taxes +4¢ Fed. '60
Washington	1	18.0	18	6.5	177	27.0	10.5
Minnesota	2	17.0	42	5.0	240	26.0	9.0
Wisconsin	3	16.5	23	6.0	175	25.5	10.0
Connecticut	4	16.0	23	6.0	167	25.0	10.0
Louisiana	4	16.0	2	7.0	129	25.0	11.0
Nevada	6	15.5	23	6.0	158	24.5	10.0
Michigan	7	15.0	23	6.0	150	24.0	10.0
Nebraska	8	14.9	2	7.0	113	23.9	11.0
Idaho	9	14.5	23	6.0	142	23.5	10.0
Hawaii	9	14.5	1	8.5	71	23.5	12.5
New Hampshire	11	14.0	2	7.0	100	23.0	11.0
Maryland	12	13.5	23	6.0	125	22.5	10.0
Alabama	13	13.0	2	7.0	86	22.0	11.0
Arizona	13	13.0	42	5.0	160	22.0	9.0
Dist. of Col.	13	13.0	23	6.0	117	22.0	10.0
Iowa	13	13.0	23	6.0	117	22.0	10.0
North Dakota	13	13.0	23	6.0	117	22.0	10.0
South Carolina	13	13.0	2	7.0	86	22.0	11.0
South Dakota	13	13.0	23	6.0	117	22.0	10.0
Vermont	13	13.0	18	6.5	100	22.0	10.5
North Carolina	21	12.2	2	7.0	74	21.2	11.0
Colorado	22	12.0	23	6.0	100	21.0	10.0
Ohio	22	12.0	2	7.0	71	21.0	11.0
Pennsylvania	22	12.0	42	5.0	140	21.0	9.0
Virginia	25	11.4	2	7.0	63	20.4	11.0
Delaware	26	11.0	42	5.0	120	20.0	9.0
Kansas	26	11.0	42	5.0	120	20.0	9.0
New Mexico	26	11.0	23	6.0	83	20.0	10.0
Utah	26	11.0	23	6.0	83	20.0	10.0
Indiana	30	10.5	23	6.0	75	19.5	10.0
West Virginia	30	10.5	2	7.0	50	19.5	11.0
Kentucky	32	10.0	2	7.0	43	19.0	11.0
Tennessee	32	10.0	2	7.0	43	19.0	11.0
Texas	32	10.0	42	5.0	100	19.0	9.0
Rhode Island	35	9.7	2	7.0	39	18.7	11.0
Arkansas	36	9.5	18	6.5	46	18.5	10.5
Massachusetts	37	9.2	41	5.5	67	18.2	9.5
California	38	9.0	23	6.0	50	18.0	10.0
Maine	38	9.0	2	7.0	29	18.0	11.0
Mississippi	38	9.0	2	7.0	29	18.0	11.0
Montana	38	9.0	23	6.0	50	18.0	10.0
Oregon	38	9.0	23	6.0	50	18.0	10.0
Illinois	43	8.9	42	5.0	78	17.9	9.0
New York	44	8.1	23	6.0	35	17.1	10.0
Alaska	45	8.0	2	7.0	14	17.0	11.0
Florida	45	8.0	2	7.0	14	17.0	11.0
New Jersey	45	8.0	42	5.0	60	17.0	9.0
Wyoming	45	8.0	42	5.0	60	17.0	9.0
Georgia	49	7.5	18	6.5	15	16.5	10.5
Missouri	50	7.0	51	3.0	133	16.0	7.0
Oklahoma	51	6.6	18	6.5	2	15.6	10.5
U.S. Avg.	—	10.9	—	5.9	—	19.9	9.9

*These taxes are essentially those levied on gasoline used as a motor fuel; some states have authorized additional local and county gasoline taxes for special purposes; states with sales, gross receipts and other special taxes usually levy these on gasoline too; thus the totals in the sixth column (1985) above could be several cents higher at the retail level than those listed here.

Source: Energy Information Administration, Monthly Energy Review (March), published 6/27/86; data recast and extended by NPN.